Canadian Appliance
Manufacturing Company Limited

Annual Report 1979

Geared for the 80's

Contents

[redacted]

Plant Locations

Canadian Appliance Manufacturing Company Limited
185 Wright Avenue,
Weston, Ontario
M9N 1E7

Montreal
Refrigerators
Laundry

Hamilton
Dishwashers
Refrigerators
Ranges

Orangeville
Air Conditioners
Humidifiers
Dehumidifiers
Microwave Ovens

London
Freezers
Refrigerators

Weston
Ranges

Company Products include: washers, dryers, ranges, microwave ovens, refrigerators, freezers, dishwashers, compactors, waste disposers, humidifiers, dehumidifiers and room air conditioners.

Pour un exemplaire de ce rapport en français s.v.p. écrire au Secrétaire

Corporate Headquarters:
185 Wright Avenue
Weston, Ontario
M9N 1E7

Corporate Profile

Major achievements have been made in the three short years since the formation of Canadian Appliance Manufacturing Company Limited.

Economies of scale have now become a reality with plant rationalization and vertical integration progressing on schedule.

Manufacturing facilities are now consolidated for Laundry in Montreal; Dishwashers in Hamilton; Room Air Conditioners and Microwave Ovens in Orangeville and Freezers in London. Important progress is also being made in consolidation of Range and Refrigerator manufacturing, the full impact of which will be reflected in 1981/82.

Physical distribution facilities have been consolidated in 11 warehouses, compared to 26 a year ago.

Service is provided by 460 factory trained service men supplemented by 500 factory trained, Authorized Independents in the rural areas. Each is supplied with microfiche parts and price lists.

Offices facilities have been reduced to 36 this year from 72 a year ago.

The addition of five large injection moulding machines, robotic spraying, electronic quality testing equipment and process control systems represent some of the major advancements instituted by the company during the past year.

Outstanding product leadership is exemplified by the new Spacemaker Microwave Oven introduced last fall.

Highlights of Operations

	1979	1978
Sales	**$291,511,000**	$273,109,000
Net income	**$ 5,314,000**	$ 4,870,000
Net income per share	**$ .53**	$ .49
Net income as a percentage of sales	**1.82**	1.78
Current ratio	**2.03 to 1**	1.69 to 1

Now united in a common cause, over 4,700 people combined their abilities three short years ago to form Canadian Appliance Manufacturing Company Limited.

This meant new associates, new products, new procedures and new locations.

That all of us from coast to coast now think of ourselves as one team is a great tribute not only to the original founding concept but, as well, to the people themselves who represent the Company's greatest resource.

Geared for the 80's

Report to Shareholders

"... the entire Company employee team faces the 80's with a high level of enthusiasm and considerable momentum".

From left to right, Mr. Ray I. Thompson, Vice President Corporate Marketing and Planning, Mr. Claude L. Houde, Vice President Corporate Employee Relations, Mr. W. R. C. Blundell, President and Chief Executive Officer and Mr. R. Best, Vice President, Corporate Finance.

Financial Summary
Sales for the Company in 1979 increased to $291.5 million, an increase of $18.4 million or 7% over 1978 in spite of the fact that for the fourth successive year, the Canadian domestic market showed virtually no real growth: in terms of units, the overall market declined by just under 1% from 1978.

The benefits of improved operating efficiencies in 1979 were offset by rapid escalation of costs, particularly in the areas of materials and transportation, which were not fully covered by selling price increases. Programmed expenses, largely for longer-term benefit, increased approximately $2 million over 1978.

Interest costs were up $2.4 million over 1978, due to higher short-term interest rates during 1979 and a planned increase in finished products inventories to support improved customer service. Total income taxes were lower in 1979 due to investment tax credits and allowances, an important contributor to which, was higher research and development expenditures associated with major Company product development programs.

Net after-tax income increased $0.4 million, up 9% over 1978, compared with the 7% sales gain.

GATT Tokyo Round
The most significant event of 1979 for the industry was the conclusion of the Tokyo Round of GATT negotiations. As anticipated, the outcome was a substantial reduction in Canadian tariff rates for the industry: Rates on most major appliances will be reduced in equal increments over the 6 year period

commencing January 1, 1983, from the current level of 20% to 12½%.

In response to this development, the consolidation of the Canadian major appliance manufacturing industry continued through 1979. These events are viewed as being positive, since Canadian Industry must move to fewer, more effective production units, in order to enjoy the product cost levels resulting from "economies of scale", which will make it possible to become internationally competitive in the longer-term.

Evidence of your Company's increasing cost competitiveness is reflected in the increasing trend of export sales. In 1979, export sales were $5.1 million, up $3.5 million from $1.6 million reported for 1978. We look forward to a continuation of this favourable trend as we move into the 1980's.

At the same time, your Company is pressing ahead with its commitment to reduce the amount of product imported into Canada. A reduction in the purchase of imported products and components, and an increase in export sales has resulted in a favourable impact on Canada's balance-of-trade of $12 million, since the date of Company formation.

Preparing for the 1980's

During the Company's early years after formation, we moved through the extremely challenging process of consolidating operations, in order to improve our longer-term cost competitiveness. This exerted tremendous strains on our customer service and product service operations.

During 1979, a major portion of management time was focused on improving our capability to serve customers. We feel confident the positive results of these efforts will be reflected during 1980.

The individual roles of the Company's four major brands have been clarified to improve marketing effectiveness. As a direct result all four brands achieved market share improvement during 1979.

Plant rationalization moves planned for 1979 were completed on schedule. Early in the year, manual defrost refrigerator production was consolidated at London. In April, microwave oven production was started up at Orangeville. And, further consolidation of range production was completed at Weston and Hamilton.

Our 1979 investment expenditures of roughly $2 million largely represented installations of more highly automated manufacturing equipment, including the industry's first application of robotics at our Hamilton Plant. Also included, were expenditures for improved systems to ensure the increasingly higher levels of product quality that will be demanded by consumers in the 1980's.

Outlook for the 1980's

The general economic outlook is not robust for either the Canadian or U.S. markets. Currently, the Canadian major appliance industry is forecasting very modest real growth for the coming year. Looking further ahead, your management anticipates a stronger major appliance market, particularly, during the first half of the decade. During this five year period, the industry can expect to see an increase in the tempo of innovations, in response to anticipated consumer demands for increased programability in appliances, better energy efficiency, and changing lifestyles, particularly in the area of food preparation.

Your Company's increasing allocation of resources to R & D, together with its access to the technology of the General Electric Company, provides us with the capability and momentum to ensure a positive response to these demands.

The overriding management challenge will be to generate the high level of profitability from day-to-day operations that is needed to fund the substantial investment expenditures required to meet the market challenges of the new decade.

Appointment of Officers

During 1979, as the Company moved to position itself for the 1980's a number of key management appointments were made. Mr. W. C. Luton was appointed Vice President – Sales and Distribution covering all of the Company's four major brands and Mr. J. W. Edwards who is in charge of the Company's Consumer Service operations was elected a Vice President. Mr. R. I. Thompson moved to the position of Vice President – Corporate Marketing & Planning.

Mr. Louis Alvarez, Mr. D. M. DeMaio and Mr. C. M. Harper were appointed Vice Presidents and General Managers of the Refrigerator and Dishwasher, Range and Comfort Conditioning, and Laundry Departments respectively.

In addition, Mr. W. C. Forsyth was appointed Vice President – General Electric brand and Mr. W. N. Parker was appointed Vice President – Hotpoint brand. Mr. R. W. Meadows continued in his position of Vice President – Moffat/McClary brands.

Summary

The Board of Directors would like to acknowledge the very high level of dedication and consistent effort displayed by all employees during 1979.

With the difficult period of integration of operations now largely behind us, the entire Canadian Appliance Manufacturing employee team looks ahead to the 1980's with a high level of enthusiasm and considerable momentum.

On Behalf of the Board

R. M. Barford
Chairman of the Board

W. R. C. Blundell
President and Chief Executive Officer
Feb. 18, 1980

Sales and Distribution

"New Customer Service and Inventory Management study provides exciting foundation for continuing future growth."

Organization
A new and highly successful Sales and Distribution organization was established in 1979 with the high priority objective of "serving the customer better" through a stronger coordination of brands, channels and services.

Equally important was the strength of the sales teams, their selling skills, merchandising talents and genuine interest in Company customers.

Distribution Services
Much attention was given to improving customer service levels by Distribution Services. The strategic program of warehouse integration was completed in March with the official opening in St. Leonard of the new Montreal Distribution Centre.

Designed with the dual purpose of distributing all products to the Quebec region and serving as a factory warehouse for the Montreal plant, the warehouse has over a quarter of a million square feet of space, 20 truck docks and facilities for loading four rail cars.

Regional offices of Moffat/McClary, Hotpoint and Builder Sales plus internal sales and support services for all brands occupy a separate area of the building.

Computer System
Early in 1979 a common computer system for all brands and products replaced the three different systems previously in use. This was a mammoth task which received the dedicated efforts of the entire Sales and Distribution group from coast to coast.

Market Growth
In a flat market, strong merchandising and promotional programs provided active dealer support at the consumer level resulting in growth increases for all brands.

An integrated sales force and channel approach to the market was developed for Builder Sales. The value of all brands and specialized sales support was amply demonstrated.

Future
To ensure a customer-oriented positioning in the '80's a major study was completed for Customer Service and Inventory Management. This study provides an exciting foundation on which to base continuing future growth.

Mr. W. C. Luton, Vice President, Sales and Distribution leaves the Company's Hamilton plant to continue his personal contacts with customers from coast-to-coast.

Consumer Service

"460 factory trained servicemen and over 500 Authorized Independents now equipped with microfiche Parts and Price Lists."

Mr. J. W. Edwards, Vice President and General Manager, Consumer Service Department reviews items for display areas with Warehouse Foreman Bill Cruickshank at the Suntract location.

The year just passed was an extremely eventful one for the Consumer Service Department.

Rationalization
Perhaps one of the most significant economies achieved was the reduction by half of the individual office operations; from 72 offices at the formation to 36 at year end.

Operations have now been consolidated and are generating commensurate results in operating efficiencies and productivity gains.

Factory-Trained Service
The Consumer Service network now extends across Canada in 32 cities from St. John's, Newfoundland, to Victoria, B.C., and provides the broadest factory service, in Canada for major appliances with a staff of 1,060 people. Of these, 460 are factory trained servicemen, each operating from individual vans stocked and equipped with an inventory of over 500 different parts. These servicemen attend update courses twice a year.

Supplementing this force in rural areas, Consumer Service is provided through a network of over 500 Authorized Independents each of whom is also factory trained.

Integration
During 1979, our National Parts Warehouses were consolidated from 3 locations to 2 locations; concurrently, the 3 separate automated systems were integrated into one computerized system which now makes possible better inventory control of the over 45,000 unique parts. The stock status can be displayed on remote terminals for each part. This new system provides the foundation for the further automation of our Branch operations in the coming year.

Microfiche
All illustrated Parts and Price Lists are now provided, in the form of Microfiche slides to all Company Servicemen and all Independent Service Depots.

Marketing
Marketing efforts were concentrated in the areas of multi-brand and universal parts promotion. Appropriate display areas were developed in each of the Company Branches providing technical advice and assistance to the "do-it-yourself" consumer at the time of purchase. Each display area contains approximately 1,000 items.

Additionally consumers of Company products can now purchase a Post Warranty Contract on all products manufactured by the Company.

Future
Consumer Service is now ideally positioned to meet the coming challenge of the '80's.

Refrigeration and Dishwashers

"...computerized re-programmable robot now installed in Hamilton to spray porcelain enamel marks a first for the Canadian Appliance Industry."

Encompassing Hamilton and London manufacturing sites this Department is responsible for the Engineering, Manufacturing and Marketing of refrigerators, chest freezers, and dishwashers. The Hamilton Plant is also responsible for Engineering and Manufacturing 30" standard and self-cleaning ranges for the Range department.

Rationalization
Consistent with Company objectives, all production of 13 cu. ft. Builder refrigerators was moved to London.

Production of 24" and 30" Builder ranges was transferred to Weston, permitting the transfer of General Electric Self-Clean ranges to Hamilton. Hamilton now is the only production source of General Electric and Hotpoint self-cleaning ranges.

All production of Company freezers became autonomous in London.

Vertical Integration
Four large plastic injection moulding machines were purchased to allow in-house manufacture of most of the large plastic parts required for department products. Installed and brought "on stream" in record time, this equipment is now making a major profit contribution.

Tooling up for many other items to increase work in-house has created more jobs.

Total savings resulting from these steps have been major.

Robotics
TRALFA, a computerized re-programmable robot was installed in Hamilton to spray porcelain enamel on to dishwasher tubs and inner doors. This is a first in the Canadian Appliance Industry. Spraying was selected as the first application because of the difficulty and uncomfortable working conditions associated with this operation.

Once the robot was installed and programmed, production re-commenced fault-free and at better-than-required rate.

Automation
Two of the many automation projects initiated during 1979 have been the introduction of automation door corner welding at London and the introduction of fully automatic assembly of studs and rollers for dishwasher racks at Hamilton.

Quality
Product quality has received dedicated attention and continues to show steady improvement. This is due to improved process control, more extensive auditing of production and participation by Quality Control in the formative stages of the change control process.

Future Outlook
New technology continues to receive high priority in a continuing effort to reduce costs towards internationally competitive levels.

In addition to technology, vertical integration is a key strategic priority to take advantage of the economy of scale inherent with the Company's formation.

Concentrated efforts are being made towards the design and engineering of products with in-built energy saving features.

Mr. Louis Alvarez, Vice President and General Manager, Refrigeration and Dishwasher Department reviews production rate increases with Al Arnold, Dishwasher Foreman in Hamilton.

Laundry Department

"Laundry Department in Montreal was the first operation to benefit from complete production rationalization in one facility."

Mr. Colin M. Harper, Vice President and General Manager, Laundry Department and Pat Farley, Manager, Inventory and Production Control, discuss the shear line cutter operation in Montreal.

Headquartered at the Montreal Plant of the Company, the Laundry Department was the first operation to benefit from the complete rationalization of production in one facility; the largest capacity appliance manufacturing operation in Canada.

Rationalization
The rationalization of laundry manufacturing has provided an excellent return on an investment of over $4-milllion, made principally in new assembly areas, plastic component production and automated fabrication. Of particular interest, most of these projects, as well as the equipment used, were based on in-house designs by the strong and experienced technical group which is a key part of the operation.

The major projects undertaken by this group included a completely new arrangement of the assembly areas affecting all conveyors, material handling and storage, with significant automation in the crating, test and sub-assembly areas. The assembly operations are now comparable to those of a large-scale manufacturer in the United States.

Tub and basket fabrication was upgraded with new equipment including mechanical expanders and automatic transfer devices. Tooling has been upgraded in the punch press area. In-line production of automatic dryer cabinets has now been incorporated.

New injection moulding machines have been purchased; these are conveniently located in the assembly areas to feed the main lines.

Quality Testing
Microprocessors are used extensively in the sophisticated Quality Test program that is used to check and recheck both sub-assemblies and finished product. This has resulted in a major improvement in product quality as well as the long term reliability of the product. A new Product Quality Test Laboratory has been constructed to ensure that quality of finished products is tightly monitored.

Vertical Integration
Another contributing factor to the quality improvement is the high level of vertical integration enabling rigid, in-house standards to be applied at all stages of the production process. From the production of gears to the manufacture of trim parts, vertical integration also contributes to the competitive product cost levels achieved on laundry products.

Economies of Scale
Competitive costs and quality have enabled share gains to be made by all brands which significantly, increased the volume of production in 1979. This positions the business strongly for major investments in new processes and technologies to ensure that the Department will be a strong competitor in the rationalized Canadian appliance industry of the eighties. The product volume levels offer a broad scope for further cost reductions to ensure that the Laundry Department will be able to compete effectively in the Canadian market-place when tariffs are reduced as a result of the recent G.A.T.T. agreement.

The thrust of the laundry business for the last three years has been to capitalize on the benefits of rationalization. The Montreal Plant now has the necessary facilities in place to handle the increased volumes which will result from the attractive product offerings.

New Product Lines
The new product lines being introduced have been designed to give the consumer a choice of attractive, value-oriented products, with highly distinctive features and appearance for each brand.

Energy
New energy conservation projects such as recycling of ceiling heat to floor level are being implemented to cut the heating costs of the plant by approximately one half.

Ranges and Comfort Conditioning

"...this rationalization programme will generate significant savings and mark another step forward in strengthening the Company's line of range products."

Rationalization
A major step in plant rationalization was completed during the past year with the consolidation of all range production in the Hamilton and Weston plants.

Completed in the fourth quarter, this rationalization resulted in production increases of the self-clean ranges in Hamilton and production increases of all the 24″ ranges, Builder 30″ ranges and the built-in ranges which have now been consolidated in the Weston Plant. This rationalization programme will generate significant savings and mark another step forward in strengthening the Company's line of range products.

Vertical Integration
Coordinated with this rationalization of the Company's manufacturing capabilities, major and important investments in Weston included a new automatic welder for range elements. This unique welder replaces three separate manual operations with one automatic machine.

Another important investment has made possible a new flow coating paint system which eliminates the arduous, time consuming task of hand spraying individual parts.

Orangeville, the home of the Company's Comfort Conditioning products, benefited from further investment with a new power assembly line for its Room Air Conditioner and Humidifier products. 1979 was a record year in sales and profits for Comfort Conditioning.

The Orangeville plant also commenced the complete assembly of all General Electric and Hotpoint Brand Microwave counter top ovens, all of which previously were imported.

New Product
A new entry in the microwave oven field, the exciting General Electric Spacemaker™ Microwave Oven provides an attractive compact look, includes a powered built-in vent and range light and most importantly gets the oven off the crowded kitchen counter top. Dealer and consumer reaction has been overwhelming.

Future
1980 will see still further advancements; a License Agreement has been concluded with Litton Industries for CAM. Company to assemble the Litton Moffat and Litton McClary brand microwave ovens in Orangeville in 1980. This product line is currently imported. When this is completed, all microwave countertop ovens sold by Canadian Appliance Manufacturing Company Limited will be made totally in Canada.

Mr. D. M. DeMaio, Vice President and General Manager, Range and Comfort Conditioning Department, compares output increases at one of the line inspection stations in Weston with Ray Bechard, Appliance Inspector.

Exports

"...the first North American major appliance manufacturer publicly committed to providing products specifically designed to the environment of its export market."

Along with increased productivity, research and technology, export sales represent one of the founding objectives of the Company.

An internationally cost-competitive facility that would provide growing employment for Canadians and produce satisfactory financial returns for shareholders is essential to this objective.

Export sales of $5.2 million during 1979 exceeded 1978 sales of $1.5 million by $3.7 million or 246%.

Principal export sales were approximately $2 million of Freezers to the United States and sales of approximately $2 million of Room Air Conditioners to West Africa and Hong Kong. Sales of Service parts represented approximately $214,000.

Countries of destination included – Gabon, U.S.A., Puerto Rico, Trinidad, Israel, Uruguay, Lebanon, Hong Kong, Cameroun, Niger, Ivory Coast, Jordan, Nigeria, Congo, Cuba, Saudi Arabia and the United Kingdom.

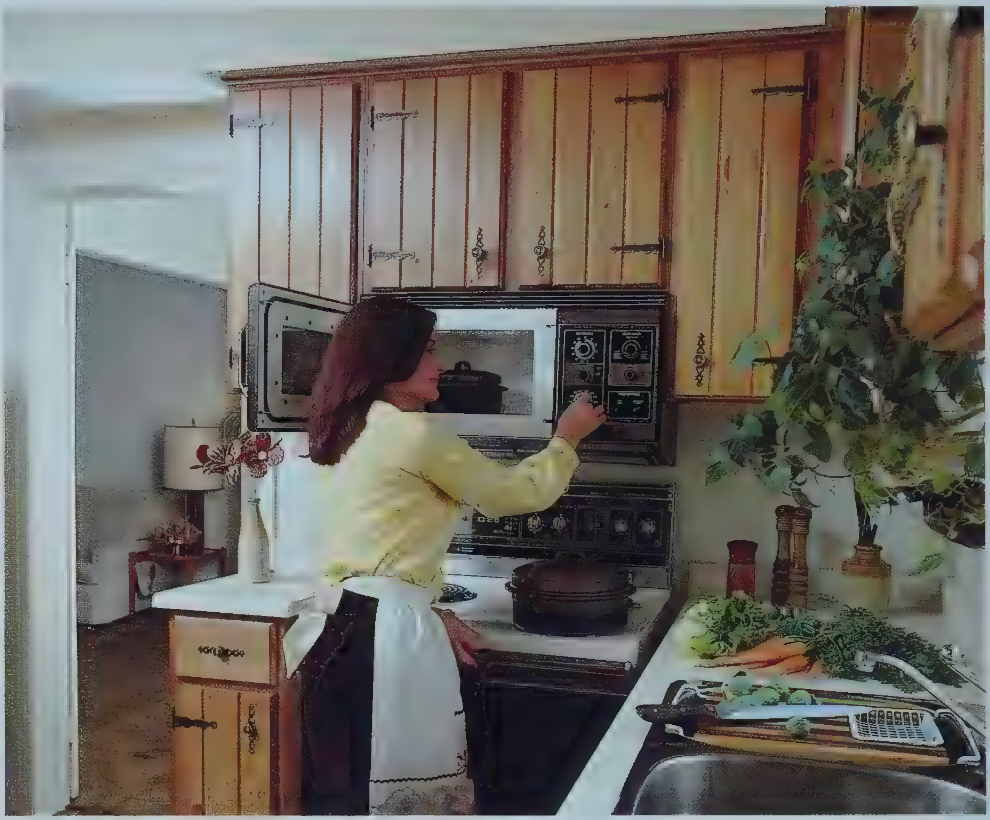
British Electrotechnical Approvals Board (BEAB) approvals are anticipated for the 16 cu. ft. refrigerator/freezer and 8 cu. ft. chest freezer. The Company will be the first in North America to receive this certification. The Company has also received the Israeli Standards Institute approval for 16 cu. ft. refrigerator/freezers.

These certifications are essential to support major thrusts into these markets.

Present at a private showing of company products to major distributors in the United Kingdom were Mr. R. Best, Vice President, Corporate Finance, Mr. P. Kelly, Merchandising Director, Rumbelows Limited, Mr. P. W. Lieberman, Rumbelows Senior Buyer, and Mr. W. J. Collins, Manager, Export Sales.

Industry Leadership

"Canadian Appliance Manufacturing Company Limited is well positioned to continue its leadership role in the introduction of emerging technologies in the 80's."



With giant strides in rationalization, vertical integration, innovation, technology, automation, organization, quality, distribution, customer and consumer service and export sales, Canadian Appliance Manufacturing Company Limited is now, after just three years, truly capitalizing on economies of scale.

Also contributing to these advancements have been the coordinated activities of a number of Technical Councils organized to analyse and make recommendations for multi-site opportunities.

These Councils are deeply and intimately involved in the areas of engineering, energy, quality, manufacturing and work measurement.

Indications of the successes resulting from the combined depth of integrated experience represented by Council members from five major plant operations are such significant improvements as:

- the implementation of new technology for robotic aided manufacturing.
- cost and use of computer assisted line balancing programmes.
- a system control procedure for the coordinated introduction of major design and process changes.
- an alpha-numeric part identification system for product assembly drawings.

Energy utilization improvements for the year were highly significant. Some examples:

- Natural gas consumption was reduced by approximately 40,000 cubic feet.
- Fuel oil consumption was reduced by more than 168,000 gallons oil.
- Steam consumption was reduced by over 8,000,000 lbs.

Canadian Appliance Manufacturing Company Limited is well positioned to continue its leadership role in the introduction of emerging technologies in the 80's.

Spacemaker™ Microwave Oven
Introduced in the fall of 1979, the new Spacemaker™ Microwave Oven cabinet mounted... designed to fit over the conventional range... with built-in vent and cooktop light. There's no need to sacrifice precious counter space, (see above).

Other features include: Time Cook Control, Time/Temp Switch, Temperature Control, Multi Power Levels, Two Speed Exhaust Fan and Cooktop Light.

Statement of Income

($000's)
Year ended December 31, 1979
(With comparative figures for 1978)

	1979	1978
Sales of products and services	**$291,511**	$273,109
Operating costs:		
Employee compensation, including benefits	**92,138**	84,480
Materials, supplies, services and other costs	**182,140**	172,431
Depreciation	**2,921**	2,973
Total operating costs	**277,199**	259,884
Income from operations	**14,312**	13,225
Other expenses:		
Interest on short term debt	**3,556**	2,062
Interest on long term debt	**5,070**	4,187
Interest and other income	**(942)**	(347)
Total other expenses	**7,684**	5,902
Income before income taxes	**6,628**	7,323
Income taxes:		
Current	**786**	744
Deferred	**528**	1,709
Total income taxes	**1,314**	2,453
Net income for the year	**$ 5,314**	$ 4,870

Operating costs include expenditures on research and development of $2,266,000 in 1979 and $1,547,000 in 1978.

Statement of Retained Earnings

($000's)
Year ended December 31, 1979
(With comparative figures for 1978)

	1979	1978
Balance, beginning of year: as restated (note 2)	**$ 5,146**	$ 276
Net income for the year	**5,314**	4,870
Balance, end of year	**$10,460**	$ 5,146

See accompanying notes to financial statements.

Balance Sheet

($000's)
December 31, 1979
(With comparative figures at December 31, 1978)

Assets	1979	1978
Current assets:		
Cash	$ 92	$ 87
Accounts receivable	47,840	45,591
Inventories:		
Finished goods	50,788	40,353
Raw materials and work in process	19,449	16,434
Total inventories	70,237	56,787
Prepaid expenses	1,399	1,077
Deferred income taxes	1,474	1,427
Total current assets	121,042	104,969
Fixed assets:		
Land	3,931	3,994
Buildings	19,247	18,746
Machinery and equipment	27,833	27,664
	51,011	50,404
Less accumulated depreciation	27,845	26,186
Total fixed assets	23,166	24,218
	$144,208	$129,187

Liabilities and Shareholders' Equity	1979	1978
Current Liabilities:		
Cheques issued but not yet cashed	$ 3,564	$ 7,526
Accounts payable and accrued liabilities	48,119	46,450
Income taxes payable	915	744
Unearned service revenue	5,927	6,334
Notes payable due within one year	1,012	1,012
Total current liabilities	59,537	62,066
Non-current liabilities:		
Bank borrowings (note 3)	42,190	30,000
Notes payable (note 4)	9,993	11,005
Pensions (note 5)	4,806	5,063
Deferred income taxes	1,108	710
Other	3,825	2,908
Total non-current liabilities	61,922	49,686
Shareholders' equity:		
Capital stock (note 6)	12,289	12,289
Retained earnings	10,460	5,146
Total shareholders' equity	22,749	17,435
	$144,208	$129,187

On behalf of the Board:

R. M. Barford, *Director*
W. R. C. Blundell, *Director*

See accompanying notes to financial statements.

Statement of Changes in Financial Position

($000's)
Year ended December 31, 1979
(With comparative figures for 1978)

	1979	1978
Source of funds:		
Funds from operations:		
Net income for the year	**$ 5,314**	$ 4,870
Depreciation	**2,921**	2,973
Deferred income taxes and other items	**44**	1,933
Total funds provided from operations	**8,279**	9,776
Bank borrowings	**12,190**	—
Increase in other non-current liabilities	**1,272**	—
Total funds provided	**21,741**	9,776
Application of funds:		
Purchase of fixed assets	**1,870**	2,442
Reduction of notes payable	**1,012**	1,012
Decrease in pension obligation	**257**	244
Total funds applied	**3,139**	3,698
Working capital provided	**18,602**	6,078
Working capital, beginning of year	**42,903**	36,825
Working capital, end of year	**$61,505**	$42,903

See accompanying notes to financial statements.

Notes to Financial Statements

December 31, 1979

Canadian Appliance Manufacturing Company Limited is incorporated under the Canada Business Corporations Act. Its shareholders are Canadian General Electric Company Limited (CGE) and GSW Limited/Limitée (GSW).

1. **Summary of significant accounting policies:**

The Company follows accounting principles generally accepted in Canada. Significant accounting policies are set out below.

(a) **Sales:**
Sales of products and services to customers are reported when title to products and parts passes to the customer or when services are performed. Sales as recorded are net of federal sales tax, customer volume rebates and cash discounts.

(b) **Inventories:**
Inventories are valued at the lower of cost and net realizable value. Cost is determined using the first in, first out method and is based on cost of material, direct labour and variable manufacturing overhead.

(c) **Fixed assets and accumulated depreciation:**
Fixed assets are stated at acquisition cost.

Depreciation is determined by using the diminishing balance method, which results in approximately two-thirds of the cost of an asset being depreciated during the first half of its estimated useful life.

The principal annual rates of depreciation are 5%-10% on buildings and 20% on machinery and equipment.

Tooling, maintenance and repair expenditures are charged to operations as incurred.

(d) **Product warranty costs:**
Anticipated future costs of product warranties are charged to operations in the year the product is sold.

(e) **Income taxes:**
Income taxes are provided for on reported net income in accordance with the tax allocation method of accounting. Under this method, deferred income taxes are recorded in respect of timing differences between reported income and current taxable income.

These timing differences relate principally to warranty costs which are deductible when paid rather than when accrued, and to differences between depreciation for income tax purposes and that recorded in the accounts.

2. **Prior period adjustment:**

As a result of the settlement of a claim for recovery of costs charged to income in 1977, the balance of retained earnings at December 31, 1977 and 1978 previously reported as ($508,000) and $4,362,000 respectively have been restated to show a retroactive increase of $784,000 representing the net of tax amount recovered. The 1978 balance sheet, statement of retained earnings and statement of changes in financial position have been restated accordingly.

3. **Bank borrowings:**

During the year the Company re-negotiated its bank borrowing arrangements, the agreement for which, provides for a line of credit for a period of eighteen months, such period renewable every six months. Accordingly all bank borrowings are classified as non-current liabilities.

Under the terms of the agreement, financing may consist of bankers acceptances and/or bank advances with interest rates related to market and official bank prime. Bank borrowings are secured by a general assignment of accounts receivable and inventories, a fixed charge on real property and a first floating charge on other assets. During the period of this financing, capital expenditures in excess of $10,000,000 per annum and dividend payments require prior consent of the banks.

4. **Notes payable:**

Notes payable consist of the following ($000's):

	December 31	
	1979	1978
CGE	**$ 8,982**	$ 8,982
Canadian chartered bank	**2,023**	3,035
	11,005	12,017
Less due within one year	**$ 1,012**	1,012
	$ 9,993	$11,005

Principal repayments to the bank approximate $1,012,000 annually to 1981. The note to CGE is due in 1987. These notes bear interest at the prime commercial lending rates of Canadian chartered banks.

5. **Pension plans:**

The Company maintains a number of pension plans covering active and retired employees. During the year the Company granted increased pension benefits, the past service cost of which amounted to approximately $1,366,000.

Current service costs are funded and charged to operations as they accrue. Past service costs arising from plan improvements are funded over fifteen years from the date such costs are established. The obligation for unfunded vested benefits recorded on a business acquisition in 1977 is being funded to 1992. Other past service costs are charged to operations as funded.

Based upon the most recent actuarial valuations, total unfunded past service obligations at December 31, 1979 are estimated at $16,131,000 (1978–$18,030,000), of which approximately $12,900,000 (1978–$10,600,000) related to vested benefits.

6. **Capital stock:**

Common shares, no par value ($000's):

	December 31	
	1979	1978
Class A:		
Authorized, issued and outstanding		
1,000,000 shares	**$ 1,000**	$1,000
Class B:		
Authorized, issued and outstanding		
1,000,000 shares	**1,000**	1,000
Class C:		
Authorized, unlimited capital;		
issued and outstanding 8,000,000 shares	**10,289**	10,289
	$12,289	$12,289

Class A and Class B shares are entitled to one vote per share; Class C shares are non voting. All shares have equal equity and dividend rights.

7. **Related party transactions:**

The Company's transactions with CGE and its affiliates are as follows–purchases of components and parts, $19,500,000 in 1979 ($20,000,000–1978); sales of product, $4,500,000 in 1979 ($546,000–1978). Amounts due to shareholders and affiliates included in accounts payable and accrued liabilities are $5,950,000 in 1979 ($5,998,000-1978).

8. **Commitments:**

The Company leases premises and equipment over various lease terms of up to five years. Annual rental payments approximate $4,300,000.

Auditors' Report

To the Shareholders of Canadian Appliance Manufacturing Company Limited:

We have examined the balance sheet of Canadian Appliance Manufacturing Company Limited as at December 31, 1979, and the statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Clarkson Gordon
Chartered Accountants

Toronto, Canada
February 1, 1980

Board of Directors

Ralph M. Barford
Chairman of the Board
Canadian Appliance Manufacturing Company Limited
Toronto, Ontario

William R. C. Blundell
President and Chief Executive Officer
Canadian Appliance Manufacturing Company Limited
Toronto, Ontario

Alton S. Cartwright
Chairman of the Board and Chief Executive Officer
Canadian General Electric Company Limited
Toronto, Ontario

Richard O. Donegan
Vice President and Group Executive
Major Appliance Business Group
General Electric Company
Louisville, Kentucky

Gordon M. Farquharson, Q.C.
Lang, Michener, Cranston, Farquharson and Wright
Toronto, Ontario

Ivan R. Feltham, Q.C.
Vice President and General Counsel
Canadian General Electric Company Limited
Toronto, Ontario

George R. Gardiner
Chairman
Gardiner, Watson Limited
Toronto, Ontario

Dr. David S. R. Leighton
Director, Banff Centre
Banff, Alberta

Walter G. Ward
Chairman
The Algoma Corporation
Toronto, Ontario

Ben Wosk
President and Chief Executive Officer
Wosk's Limited
Vancouver, British Columbia

Officers

Ralph M. Barford
Chairman of the Board

William R. C. Blundell
President and Chief Executive Officer

Louis Alvarez
Vice President and General Manager
Refrigeration and Dishwasher Department

Ronald Best
Vice President
Corporate Finance

James W. Edwards
Vice President and General Manager
Consumer Service Department

Colin M. Harper
Vice President and General Manager
Laundry Department

Claude L. Houde
Vice President
Corporate Employee Relations

William C. Luton
Vice President
Sales and Distribution

D. M. DeMaio
Vice President and General Manager
Range and Comfort Conditioning Department

Robert W. Meadows
Vice President
Moffat/McClary Appliances

William C. Forsyth
Vice President
General Electric Appliances

Neil W. Parker
Vice President
Hotpoint Appliances

Raymond I. Thompson
Vice President
Corporate Marketing and Planning

Kenneth D. Noble
Comptroller

J. Edward Jones
Treasurer

Emlyn D. James
Assistant Treasurer

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